KUWAIT

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998 1/
Income, Production and Employment:			
Nominal GDP 2/	31,127	30,403	29,490
Real GDP Growth (pct) 3/	13.83	-1.8	-4.2
GDP by Sector:			
Manufacturing	3,689	4,056	4,178
Services	3,201	3,491	3,596
Government	6,465	6.798	7,002
Petroleum	13,806	12,160	10,871
Per Capita GDP (US$)	14,865	13,769	13,177
Labor Force (000s)	907	989	1,233
Unemployment Rate (pct)	1.4	1.3	1.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	-0.6	4.3	-1.3
Consumer Price Inflation (pct)	3.6	0.8	1.2
Exchange Rate (KD/US$ annual average)			
Official	.299	.303	.305
Balance of Payments and Trade:			
Total Exports FOB	14,910	14,165	13,650
Exports to U.S. 4/	1,782	1,998	1,661
Total Imports CIF	8,385	8,267	8,185
Imports from U.S. 4/	1,979	1,394	1,591
Trade Balance	6,525	5,898	5,465
Balance with U.S. 4/	-197	604	70
Current Account Surplus/GDP (pct)	22.8	25.3	25.1
External Public Debt 5/	727	445	213
Debt Service Payments/GDP (pct)	10.4	0.9	0.8
Fiscal Deficit/GDP (pct) 6/	-5.1	13.8	21.3
Gold and Foreign Exchange Reserves (US$ billions)	3.4	3.5	3.8

Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ 1998 figures are projections based on data through August.

2/ GDP at factor cost.

3/ Percentage changes calculated in local currency.

4/ Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 Figures are estimates based on data available through August 1998.

5/ Based on Kuwaiti Government figures as of January 1998.

6/ This is a Ministry of Finance projection; embassy projects a lower deficit for FY 1998/99.

1. General Policy Framework

Kuwait is a politically stable state where the rule of law prevails. The press is largely free and commercial advertising is available. Arabic is the official language but English is widely spoken. Kuwait has a small and relatively open, oil-rich economy which has created an affluent society.

Kuwait still faces several structural problems in its budget: excessive dependence on oil revenue, growing government expenditures due to the need for continued high defense spending, growing social expenditures resulting from high levels of government employment, and provision of heavily subsidized social services and utilities. Primarily because of weak oil revenues, Kuwait's budget will be in deficit for the FY 1997/98. A five-year plan to reduce government employment, reduce subsidies and encourage privatization of services is expected to be presented to parliament in late 1998 or early 1999, but is expected to meet resistance.

Domestic investment is encouraged by provision of low cost land, subsidized utilities and waivers of duties and fees. These are offset by lengthy bureaucratic procedures, and for foreigners, high tax rates and complex procedures to secure work visas. The Kuwait Central Bank uses interest rates as its primary means to control money supply. This is accomplished through adjustments to the discount rate and through market operations of government securities. Kuwait’s money supply (M2) increased in 1997.

2. Exchange Rate Policy

There are no restrictions on current or capital account transactions in Kuwait, beyond a requirement that all foreign exchange purchases be made through a bank or licensed foreign exchange dealer. Equity, loan capital, interest, dividends, profits, royalties, fees and personal savings can all be transferred in or out of Kuwait without hindrance.

The Kuwaiti Dinar itself is freely convertible at an exchange rate calculated daily on the basis of a basket of currencies which is weighted to reflect Kuwait's trade and capital flows. Since the dollar makes up over half of the basket, the Kuwaiti Dinar has closely followed the exchange rate fluctuations of the U.S. Dollar over the past year.

3. Structural Policies

Kuwait's Government plays a dominant role in the local economy, which may diminish if moves toward privatization and rationalization of the economy are implemented. Kuwait's economy is heavily regulated, which restricts participation and competition in a number of sectors and strictly controls the roles of foreign capital and expatriate labor. Policies favor Kuwaiti citizens and Kuwaiti-owned companies. Income taxes, for instance, are only levied on foreign corporations and foreign interests in Kuwaiti corporations, at maximum rates of 55 percent of taxable income. Individuals are not subject to income taxes, but the government is considering possible changes to its current income tax structure.

Foreign investment is welcome in Kuwait for minority partnership in select sectors. Foreign nationals, save for the citizens of some GCC countries, are prohibited from having majority ownership in virtually every business other than certain small service-oriented businesses, and may not own property. Non-GCC nationals are forbidden to trade in Kuwait stocks on the Kuwait stock exchange except through the medium of unit trusts (mutual funds). A draft foreign investment law currently with parliament would address some of these disincentives.

Government procurement policies specify local products, when available, and prescribe a 10 percent price advantage for local companies on government tenders. There is also a blanket agency requirement for all foreign companies trading in Kuwait to either engage a Kuwaiti agent or establish a Kuwaiti company with majority Kuwaiti ownership and management.

4. Debt Management Policies

Prior to the Gulf War, Kuwait was a significant creditor to the world economy, having amassed a foreign investment portfolio that was variously valued at $80 to $100 billion. Following liberation, Kuwait made the final payment on its $5.5 billion jumbo reconstruction loan in December 1996. The estimated value of the Kuwait Investment Authority's (KIA) foreign assets, concentrated primarily in the Fund for Future Generations, is now approximately $60 billion, while other government foreign assets are estimated at about $22 billion. The government is authorized by law to borrow up to KD 10 billion ($30.5 billion) or its equivalent in major convertible currencies. As of the end of June 1998, the total outstanding balance of public debt instruments in KD issued by the Central Bank of Kuwait was KD 2.01 billion ($6.6 billion), while Kuwait's official external debt was estimated at about $340 million.

5. Significant Barriers to U.S. Exports

There are no customs duties on food, agricultural items and essential consumer goods. Imports of some machinery, most spare parts and all raw materials are exempt from customs duties. Oil companies may apply for tariff exemptions for drilling equipment and certain other machinery, including that for new plants.

On July 1, 1992, Kuwait began collecting a four percent tariff on most imports. This flat rate is applied to the Cost, Insurance and Freight (CIF) value of imported goods. Where imports compete with domestic "infant industries," the Ministry of Commerce and Industry may impose protective tariffs of up to 25 percent. In such cases, tariff reviews and determinations are done on a case by case basis.

Kuwait, like other GCC member states, maintains restrictive standards which impede the marketing of U.S. exports. For example, shelf-life requirements for processed foods are often far shorter than necessary to preserve freshness and result in U.S. goods being uncompetitive with products shipped from countries closer to Kuwait. Standards for many electrical products are based on those of the UK, which restrict access of competitive U.S. products. Standards for medical, telecommunications and computer equipment tend to lag behind technological developments, with the result that government tenders often specify the purchase of obsolete, more costly items.

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The government views its offset program as a major vehicle for motivating foreign investment in Kuwait. The U.S. Government opposes this type of program and has recommended that Kuwait carefully weigh all the potential costs to itself of an offset program. Interested U.S. firms should familiarize themselves with the terms of this program to ensure that the offset program does not become an undue obstacle to their business.

In June 1993, Kuwait announced that it would no longer apply the secondary boycott to firms that do business with Israel and the tertiary boycott with firms that do business with firms subject to the secondary boycott, but would continue to apply the primary boycott to goods and services produced in Israel itself. Kuwait has also taken steps to revise its commercial documentation to eliminate all direct references to the boycott of Israel. Should U.S. firms receive requests for boycott-related information from private Kuwaiti firms or Kuwaiti public officials, they should advise the embassy of the request, report the request as required by law to the U.S. Department of Commerce, and take care to comply with all other requirements of the U.S. anti-boycott laws. Kuwait, along with many other Middle East countries, has received three one-year waivers of the 1996 "Brown Amendment" requirements. The current waiver will expire in May, 1999. The "Brown Amendment" prohibits defense sales to those countries that have not eliminated all vestiges of the enforcement of the secondary and tertiary boycott of Israel, unless waived by the President.

For perishable imports arriving via air, land or sea, customs clearance is prompt and takes about three hours. To complete clearance, the importer presents its import license and quality test certificate. Recurring perishable imports can be cleared and taken to the importer's premises after a sample has been submitted to the municipality for quality testing.

Usually, customs assesses duty on imported goods based on commercial invoices. If the customs officials believe the declared value unrealistic, they may make their own assessment.

Importers do not need a separate import license for each product or each shipment. An importer does, however, need an annual import license issued by the Ministry of Commerce and Industry. To be eligible, the company must be registered both in the Commercial Register at the

Ministry of Commerce and Industry, as well as at the Kuwait Chamber of Commerce and Industry. Kuwaiti shareholding in the capital of the company must be at least 51 percent.

A special import license is required to import certain kinds of goods, i.e., firearms, explosives, drugs and wild animals. Some drugs require a special import license from the Ministry of Public Health. Imports of firearms and explosives require a special import license form the Ministry of Interior.

6. Export Subsidies Policies

Kuwait does not directly subsidize any of its exports, which consist almost exclusively of crude oil, petroleum products and fertilizer. Almost 98 percent of Kuwait's food is imported. Small amounts of local vegetables are grown by farmers receiving government subsidies, and small amounts of these vegetables are sold to neighboring countries. However, not enough of these vegetables are grown or sold to make any significant impact on local or foreign agricultural markets. Periodically, Kuwait cracks down on the re-export of subsidized imports such as food and medicine.

7. Protection of U.S. Intellectual Property

Kuwait is a member of the World Trade Organization (WTO) and plans to be in compliance with its obligations under the Trade Related Aspects of Intellectual Property (TRIPS) Agreement by January 1, 2000. Kuwait joined the World Intellectual Property Organization (WIPO) in April of 1998, but has not yet signed the Berne Convention for the protection of literary and artistic works (copyright) or the Paris Convention for the protection of industrial property (patent and trademark). The U.S. Trade Representative listed Kuwait in 1998 on the “Special 301” Priority Watch List for lack of progress in passing copyright legislation , absence of patent coverage for pharmaceuticals, and Intellectual Property (IP) enforcement problems. Trademark protection is satisfactory.

Patent: Kuwait has not yet established a "mailbox" as required under the WTO TRIPS accord. Currently, Kuwait's Patent Office serves only as a registration center, with no means of enforcing patent protection.

Copyright: In 1995, the Ministry of Information issued ministerial decrees protecting U.S. and British-copyrighted material. In April 1998, Kuwait’s Ministry of Planning issued a decree barring the use of pirated software on government computers. A TRIPS-consistent draft Copyright Law is currently with the Kuwait Cabinet and is expected to be forwarded to the National Assembly in November. Kuwait’s Minister of Commerce and Industry created an inter-ministerial IPR Committee in June of 1998 that was tasked with developing recommendations to bring Kuwait’s IPR regime into conformance with its international obligations. The draft report was completed in September and a final version is expected to be released soon.

Video piracy, in particular, remains a major concern despite efforts by the Ministry of Information to enforce the 1995 Ministerial Decree. Lack of staff and a reluctance of Kuwaiti officials to publicize the names and locations where pirated products are seized are two major obstacles. Uncertain and slow judicial action is also a hurdle. It is hoped that these problems will be addressed following passage of the copyright bill.

8. Worker Rights

a. The Right of Association: Both Kuwaiti and non-Kuwaiti workers have the right to establish and join unions; latest figures indicate 50,000 workers are union members. The government restricts the free establishment of trade unions: workers may establish only one union in any occupational trade, and unions may establish only one federation. New unions must have at least 100 members, 15 of whom must be Kuwaiti. Expatriate workers, about 80 percent of the labor force, may join unions after five years residence, but only as nonvoting members. In practice, the Kuwait Trade Union Federation claims that this restriction is not enforced and that foreigners may join unions regardless of their length of stay.

b. The Right to Organize and Bargain Collectively: While unions are legally independent organizations, 90 percent of their budgets derive from government subsidies and the government oversees their financial records. This extends to prescription of internal rules and constitutions, including prohibition of involvement in domestic political, religious or sectarian issues; unions nevertheless engage in a wide range of activities. Unions can be dissolved by court ruling or Amiri decree, although this has never happened. Were this to happen, union assets would revert to the Ministry of Social Affairs and Labor. Kuwaiti citizen, but not foreign, union members have the right within the union to vote and be elected. The law limits the right to strike; all labor disputes must be referred to compulsory arbitration if labor and management cannot reach a solution, and strikers are not guaranteed immunity from state legal or administrative action against them. Foreign workers, regardless of union status, may submit any grievance to the Kuwait Trade Union Federation, which is authorized to investigate their complaints and offer free legal advice.

c. Prohibition of Forced or Compulsory Labor: The Constitution prohibits forced labor "except in the cases specified by law for national emergencies and with just remuneration." Foreign nationals must obtain a Kuwaiti sponsor to obtain a residence permit, and cannot change employment without permission of the original sponsors. Domestic servants, not protected by Kuwait's Labor Law, are vulnerable to abuses of this rule. Sponsors frequently hesitate to grant permission to change employment because of the various expenses they covered to bring the servants into the country, often ranging from $700 to $1,000. "Runaway" maids can be treated as criminals under the law for violations of their work and residence permits, especially if they attempt to work for someone else without the required permits. Despite government protections, some sponsors continue to hold their servants' passports as a means of controlling their movement.

d. Minimum Age for Employment of Children: Minimum legal age is 18 years for all forms of work, both full and part-time. Employers may obtain permits to employ juveniles between the ages of 14 and 18 in certain trades, for a maximum of six hours per day, on condition that they work no more than four consecutive hours followed by a rest period of at least one hour. Compulsory education laws exist for children between the ages of 6 and 15. Some small businessmen employ their children on a part-time basis, and there have been unconfirmed reports of some South Asian domestic servants under 18 who falsified their age in order to enter Kuwait.

e. Acceptable Conditions of Work: In the public sector, the effective minimum monthly wage is approximately $774 for Kuwaiti citizens and $301 for non-Kuwaitis; there is no private sector minimum wage. Labor law sets general conditions of work for both public and private sectors, with the oil industry treated separately. The Civil Service Law, which also pertains to the public sector, limits the standard workweek to 48 hours with one full day of rest per week, and provides for a minimum of 14 workdays of leave per year and a compensation schedule for industrial accidents. The law also provides for employer-provided medical care, periodic medical exams to workers exposed to environmental hazards on the job, and compensation to workers disabled by injury or disease due to job-related causes. Legal protections exist for workers who file complaints about dangerous work situations. Laws establishing work conditions are not always applied uniformly to foreign workers, and foreign laborers frequently face contractual disputes, poor working conditions and, in some cases, physical abuse.

f. Rights in Sectors with U.S. Investment: Two significant U.S. investments in Kuwait in the oil industry, one in the partitioned neutral zone shared by Kuwait and Saudi Arabia and the other in Kuwait proper, operate under and in full compliance with the Kuwaiti labor law.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		-30
Food & Kindred Products	(1)	
Chemicals & Allied Products	-39	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	9	
Electric & Electronic Equipment	0	
Transportation Equipment	(2)	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		7
Services		13
Other Industries		(1)
TOTAL ALL INDUSTRIES		61

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.